

**Statement by**

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**Before the**

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COMMITTEE ON COMMERCE, SCIENCE, AND  
TRANSPORTATION**

**Hearing on Rural Telecommunications Issues**

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## **EXECUTIVE SUMMARY**

Ten years after passage of the Telecommunications Act of 1996, the 'rural difference' continues. The national policy dictating the availability of quality communications services at just, reasonable, and affordable rates in all regions of the Nation remains as strong today as ten years ago. Any reform of universal service and intercarrier compensation programs must acknowledge that service in rural areas is different. It is more expensive due to extreme geographical conditions, and rural service providers lack the economies of scale enjoyed by urban providers.

Inter-carrier compensation is an integral part of cost recovery for rural providers. While past public policy may have dictated that some of these rates were set above cost as an offset for local rates, the fact remains that the cost of providing access to rural networks is not zero. Therefore, any notion of a 'bill and keep' intercarrier compensation regime should be dismissed. Rural providers should also be encouraged to explore, and implement where viable, expanded local calling areas or other innovative programs to reduce reliance on intercarrier compensation. State and federal regulation should allow local carriers such flexibility without undue delay. Finally, Congress and regulators must avoid the urge to give voice over Internet protocol (VoIP) carriers a free ride on rural networks. In the end, IP is simply another stage of evolution in the communications network, and still requires that rural carriers have lines to the ultimate end-user. Thus, there is a cost associated with VoIP providers' use of rural networks.

## **INTRODUCTION**

Good morning Mr. Chairman, Co-Chairman Inouye, and members of the Committee. My name is Bill Squires, and I am the Sr. Vice President and General Counsel for the Blackfoot Telecommunications Group located in Missoula, Montana. It is an honor to testify before the Committee this morning on Rural Telecommunications. I would also like to thank Montana's own Senator Conrad Burns for his work in the Senate over the years to ensure that Montanans have a voice on all technology issues. With the support and dedication of the Chair and Co-Chair, and the entire Committee, we are able to preserve the quality and affordability of telecommunications services for rural Americans.

Blackfoot is both an incumbent rural telephone cooperative, providing service to approximately 17,000 access lines in Western Montana since 1954, as well as a competitive local exchange carrier providing services to the Missoula market, a town of about 60,000 people.

The scope of this hearing is very broad. As such, I would like to focus my testimony on a few key issues and policies impacting the rural telecommunications industry, particularly in the intercarrier compensation arena. However, by their very nature many of these issues are intertwined.

## **THE RURAL DIFFERENCE CONTINUES**

Ten years ago Congress passed the Telecommunications Act of 1996 and many members of this Committee have first-hand knowledge of the hard work and deliberation that went into that landmark legislation. Interwoven throughout the '96 Act, and indeed the Communications Act of 1934, is the explicit recognition that those providing communications services to rural areas of our nation face unique challenges. In fact, these principles were made clear by Congress in section 254 of the '96 Act.

As part of the implementation of the '96 Act, the Federal Communications Commission (FCC), through a recommendation from the Federal-State Joint Board, called for the creation of the Rural Task Force (RTF), whose objective was to help identify issues that were unique to rural

carriers.<sup>1</sup> The RTF was made up of representatives from every aspect of our industry – from large international carriers, to cellular companies, to regulators, to consumer advocates, to rural companies such as Blackfoot.

In January, 2000, the RTF released a white paper documenting the ‘rural difference’ in telecommunications, and the unique challenges that rural carriers face, such as providing service in remote areas, securing investment dollars and lacking the benefits of scale.<sup>2</sup> Since that white paper’s release, not a lot has changed. Today these differences play an important role in developing intercarrier compensation policy, as those policies are, at least in part, dictated by network architecture in rural areas.

Blackfoot serves over 6,500 square miles of remote Western Montana. We like to believe it is the Last Best Place, but placing fiber and other facilities in the last, best place is not an easy chore. Our service area encompasses a land mass approximately five times the size of Rhode Island, but has a population of only 29,000, or a density of roughly 4 people per square mile. The average population density of non-rural carriers is approximately 105 subscribers per square mile.<sup>3</sup> Rural carriers such as Blackfoot incur relatively high loop costs as a result of our lack of economies of scale and density. Additionally, the costs associated with getting personnel and equipment to remote areas is high. And, of course, we do all of this to service the single line residences, and the occasional two-line business. There are no Fortune 500 corporate campuses in Trout Creek, Montana, with a population of 261. Economic development in rural Montana means helping establish a small meeting center for the area senior citizens, or helping build a local medical clinic so folks do not have to drive several hours to the nearest hospital. We have proudly done these types of projects with the help of the Department of Agriculture’s Rural Utilities Services (RUS) economic development loans.

Being rural, however, does not mean we lack innovation. And, it does not mean we are not aggressively deploying advanced services or engaging in progressive planning. Broadband service is available to 97% of our rural customers. At Blackfoot we are not proponents of the ‘highest cost’ option

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<sup>1</sup> See *Federal-State Joint Board on Universal Service*, Report and Order, CC Docket No. 96-45, FCC 97-157, 12 FCC Rec. 8776, ¶ 253 (1997).

<sup>2</sup> The RTF’s “The Rural Difference” White Paper is available at:  
<http://utilityregulation.com/content/reports/WP2.pdf>

<sup>3</sup> *Ibid.* at pp. 7-14.

for such deployment. In fact, we are taking a very long-term view of network evolution, which we believe will lead to greater efficiencies, lower costs, and therefore less pressure on subsidized intercarrier compensation and universal service. At Blackfoot, we have installed a new softswitch, and are in the process of establishing a 100% Ethernet backbone network that will allow us to push advanced services over greater distances at lower costs.

As a result of this aggressive innovation, our reliance on federal universal service funding is decreasing, and in fact is projected to go down by over \$500,000 this year. However, it will not, and indeed should not, ever completely go away. Similarly, our legitimate right to charge for the use of our networks through intercarrier compensation will not go away either. Rural is different.

## **RURAL INTERCARRIER COMPENSATION ISSUES**

### **Cost Recovery is Paramount**

The rural industry should, and must in my opinion, concede that in many instances current access rates still reflect implicit subsidies designed by regulators to keep local rates low. However, the fact remains that the true costs are not zero! Rural networks like ours have enormous transport costs—it may be 35 miles between our end office and the customer. And our costs to build those transport and loop facilities are high, as well. While our urban counterparts lament the need to tear up paved city streets to lay new infrastructure, Blackfoot and other rural companies are trudging across mountain tops or trenching in an area that never has—nor likely ever will—have a road built to access it.

Establishing a bill and keep access regime does not eliminate the subsidies currently built into the system, it merely shifts the subsidies. With bill and keep, it is the carriers using rural networks for free that become subsidized. This is an important point. Today, we use intercarrier compensation to recover our costs. A shift to bill and keep removes our ability to recover our costs, and allows those who did not pay for the networks to use them for free. Clearly that cannot be Congress' intent.

The National Association of Regulatory Utility Commissioners (NARUC) has created, with the FCC's support, a collaborative forum to

develop workable solutions to intercarrier compensation issues. The forum is making progress, and should be urged to quickly reach a consensus solution. This Committee should allow that process to unfold. Any solution must include unified interstate, intrastate, and local carrier compensation rates recognizing urban and rural cost differences. If necessary, Congress should expressly give the FCC authority to adopt this unified rate scheme.

### **Expanded Local Calling**

Like many of our rural local exchange company brethren, Blackfoot for years has experienced precipitous drops in intrastate carrier access minutes due, presumably, to wireless substitution. Last year Blackfoot embarked on an aggressive, albeit somewhat controversial and painful, Expanded Area Service, or EAS, plan. The intent of implementing EAS was to give us more certainty in recovering our costs. As part of that plan, we worked with Qwest, CenturyTel and some other neighboring ILECs and combined 21 of our exchanges into one local calling area. So now, a call from Thompson Falls to Missoula—a distance of more than 100 miles—is a local call. Sure our customers now pay a little more for local service, but their local calling scope is much larger, reducing the amounts they would be paying if those calls were toll calls.

While implementing EAS was a big step towards Blackfoot gaining certainty with regards to cost recovery for intrastate services, some problems still exist—specifically, we are seeing arbitrage. For example, in the year since we have had EAS deployed, we have seen a substantive drop in our interstate switched access minutes as toll carriers “readjusted” their percent interstate usage factors, taking advantage of our new EAS region. Ultimately, the point I would like to make is as long as there are different termination rates available, there are always going to be players finding ways to game the system. Establishment of a unified intercarrier compensation rate should address and resolve this issue.

### **VoIP Intercarrier Compensation**

Like most other network providers, we believe that those using our network should pay for their use. Companies should not get a free ride simply because of the transportation method they use. SONET traffic (traditional long distance transport) is like a pick-up truck riding the

highway (our network) that we built. IP traffic is like a car riding the exact same network. Why should one have to pay and the other be exempt?

The issue becomes identifying the types of traffic and rating them accordingly. But again, a difference in rates will set-up arbitrage opportunities. We appreciate the work NARUC has done in spear-heading an industry-wide effort to develop a plan to move towards a unified rate. We are hopeful that the final version of that plan will set-up a rate scheme that will eliminate arbitrage opportunities and give rural carriers like us the ability to fully recover the costs of providing quality services to rural America.

### **CONCLUSION**

If I could make one point today that remained foremost in the Committee members' mind, it would be that rural really is different. Every day our trucks roll deep into the Last, Best Place known as Western Montana, and our employees help rural Montana connect to, and compete in, the world economy. It is hard work for our women and men bringing service to Trout Creek, and Alta and Helmville – and they do it as well or better than any of the large national carriers. I am proud of them.

For over seventy years it has been the policy of this Nation to ensure that consumers in all regions have access to telecommunications and information services, including advanced services, that are reasonably comparable, in quality and rates, to those available in urban areas. To do so, rural carriers must be reasonably compensated for the use of their networks by other carriers. Blackfoot Telephone Cooperative, and the entire rural telecommunications industry, stand ready to work with this Committee, Congress, the FCC, and all interested parties, to fashion a stable, predictable intercarrier compensation system which provides for innovation, competition and deployment of advanced services while allowing the fair recovery of the costs for such services.

On behalf of our 17,000 customers in Western Montana, thank you for the opportunity to appear before the Committee.